REPORT TO

THE CONGRESS OF THE UNITED STATES

NEED FOR IMPROVEMENTS IN THE MANAGEMENT OF MONEYS HELD IN TRUST FOR INDIANS

BUREAU OF INDIAN AFFAIRS
DEPARTMENT OF THE INTERIOR

BY

THE COMPTROLLER GENERAL
OF THE UNITED STATES

MARCH 1966

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114868

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To the President of the Senate and the
Speaker of the House of Representatives

Herewith is our report on the need for improvements in the management of moneys held in trust for Indians by the Bureau of Indian Affairs, Department of the Interior.

Our review showed that trust funds substantially in excess of current disbursement needs were not invested by the Bureau of Indian Affairs, thereby resulting in significant losses of interest income to Indian peoples. Uninvested cash deposited with the Treasury Department exceeded $11.1 million at the end of each month during fiscal year 1964. We also found that income from investments was inequitably distributed at two area offices. We estimate that, during fiscal years 1963 and 1964, $38,700 of interest income was inequitably distributed to 7 agencies, with the result that 11 agencies and two miscellaneous accounts received less than their equitable share of the earnings, because two area offices misclassified the beneficial ownership of securities after the Bureau reorganized its administration of Indian trust moneys in 1950. Also, two Indian Service Special Disbursing Agents were not properly recording interest income, and at one area office not all interest earned on investments was collected. In regard to these findings, the Department advised us that the Bureau had taken or would take actions that should correct the deficiencies noted.

Our review also disclosed that an Indian Service Special Disbursing Agent withheld funds from certain depositors to avoid recording overdrafts after erroneous payments had been made to other persons. The Agent believed that he would incur personal liability by creating such overdrafts. After we brought this matter to the attention of Department of the Interior officials, we were advised that the Bureau had instituted a plan to establish an administrative reserve of funds derived from miscellaneous revenues in order that accounts of rightful recipients could be promptly credited when erroneous payments had been made. The Bureau instituted this plan in the belief that Indian Service Special Disbursing Agents assumed additional personal liability by creating overdrafts to credit the accounts of rightful recipients.

In our opinion, an administrative reserve of funds, such as proposed by the Bureau, may not legally be established with miscellaneous revenues. Furthermore, we do not believe that an Indian Service Special Disbursing Agent assumes additional personal liability by creating overdrafts to pay rightful recipients since, in so doing, he is discharging a legal debt of the Government. Accordingly, we are recommending that the Commissioner of Indian Affairs (1) advise the Indian Service Special Disbursing Agents that no additional personal liability is incurred as a result of making payments to rightful recipients and (2) require the Agents to promptly credit the proper accounts after it has been learned that erroneous payments have been made.

We believe that our review indicates a need for the Bureau's Office of Audit to direct special attention to its audits of Indian Service Special Disbursing Agent activities in order to more effectively assist responsible Bureau officials in (1) recognizing those areas that need their attention and (2) implementing improvements in the management of trust fund activities. Accordingly, we are recommending that the Commissioner of Indian Affairs direct that internal audits of trust fund activities be broader in scope.

We are bringing the results of our review to the attention of the Congress because of the special fiduciary responsibility that the Congress has placed on the Secretary of the Interior and the Commissioner of Indian Affairs in carrying out the Government's guardianship obligations to Indian peoples relating to trust funds. We are also advising of the actions taken or that need to be taken to correct the deficiencies noted during our review.

We plan to examine and evaluate corrective actions taken on the matters discussed in this report, after such actions have been implemented by the Bureau of Indian Affairs, as part of our periodic reviews of the accounts of Indian Service Special Disbursing Agents.

Copies of this report are being sent to the President of the United States and to the Secretary of the Interior.

Frank H. Weitzel

Acting Comptroller General
of the United States

Contents

		Page
INTRODUCTION		1
BACKGROUND		2
FINDINGS AND RECOMMENDATIONS		4
Need to improve the management of Indian trust moneys		4
Loss of interest income on cash excess to current disbursement needs		4
Funds withheld from depositors		7
Recommendation to the Commissioner of Indian Affairs		9
Inequitable distribution of interest income on deposits		10
Trust assets not recorded		12
Interest on bank deposits not paid at the prescribed rate		13
Need to broaden scope of internal audits of ISSDA activities		13
Recommendation to the Commissioner of Indian Affairs		15
	Appendix	
APPENDIXES		
ISSDA account balances of the Bureau of Indian Affairs, June 30, 1964	I	19
Principal officials of the Department of the Interior and the Bureau of Indian Affairs responsible for the administration of activities discussed in this report	II	20
Letter dated June 15, 1965, from the Director of Survey and Review, Department of the Interior, to the General Accounting Office	III	22

REPORT ON
NEED FOR IMPROVEMENTS
IN THE MANAGEMENT OF MONEYS
HELD IN TRUST FOR INDIANS
BUREAU OF INDIAN AFFAIRS
DEPARTMENT OF THE INTERIOR

INTRODUCTION

The General Accounting Office has reviewed selected aspects of the management of moneys held in trust for Indians by the Bureau of Indian Affairs, Department of the Interior. Our review was made because we noted indications of management weaknesses during our examinations of Bureau records for settling the accounts of Indian Service Special Disbursing Agents. The review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Our review was directed primarily to those aspects of the management of trust moneys which appeared to warrant particular attention rather than to an overall appraisal of the administration of trust funds held by the Bureau. Our review was conducted at the Bureau's Central Office, Washington, D.C.; the Aberdeen Area Office, Aberdeen, South Dakota; and the Billings Area Office, Billings, Montana. We reviewed the applicable laws and regulations and the policies, practices, procedures, and records of the Aberdeen and Billings Area Offices pertaining to the management of Indian moneys held in trust by the Government. We also discussed certain matters with officials of the Treasury Department.

BACKGROUND

The special fiduciary responsibility of the Government for Indian trust funds has been established through numerous acts of the Congress and court decisions. In its opinion in the case of Seminole v. United States, 316 U.S. 286 (1941), the Supreme Court stated that it has recognized the distinctive obligation of trust incumbent upon the Government in its dealings with Indian peoples. The Congress has conferred the authority for the supervision and management of Indian Affairs to the Commissioner of Indian Affairs, under the direction of the Secretary of the Interior (25 U.S.C. 2). In recognizing its fiduciary responsibility for the management of moneys held in trust for Indian peoples, Bureau regulations provide that "It is the responsibility of the Bureau of Indian Affairs to manage the funds held by it for credit of individual Indians wisely and prudently in the interest of such beneficiaries."

In 1965 the Bureau provided without charge commercial-type banking services for about 40,000 accounts of individual Indians and Indian groups. The moneys held in trust are usually collected by the Bureau and are generally derived from income-producing activities involving Indian trust lands. Funds can generally be freely withdrawn by the owners upon approval of agency superintendents. Voluntary deposits are not accepted unless, in the judgment of the responsible Bureau official, refusal to do so would result in a substantial hardship to the Indian. It is a policy of the Bureau to encourage Indians to use commercial banking services when practicable.

Indian Service Special Disbursing Agents (ISSDAs) act as disbursing officers and are held accountable for the trust funds. The ISSDAs, who are bonded, are also accountable for cash received in lieu of surety bonds to guarantee performance of contracts for use of Indian lands. These funds are held in custody by the ISSDAs pending such time as they are returned to the remitter or applied to the appropriate Indian account. When an ISSDA's cash balance is in excess of current disbursement needs, he may invest such excess cash in Government securities or in time deposits in commercial banks. The income from such investments is distributed on a pro rata basis to the various depositors.

It is the Bureau's policy to encourage Indian participation in investment planning and to provide counsel and advice to individuals and groups on the investment of their funds. When it is determined to be in the best interest of the Indians and consent is obtained, the Bureau invests in the name of the owner all or part of the funds held in trust. Income on these investments accrues to the benefit of the owner.

ISSDA account balances at June 30, 1964, as reported to the Central Office, are shown in appendix I.

The principal officials of the Department of the Interior and the Bureau of Indian Affairs responsible for the administration of activities discussed in this report are listed in appendix II.

FINDINGS AND RECOMMENDATIONS

NEED TO IMPROVE THE MANAGEMENT OF INDIAN TRUST MONEYS

Our review showed that cash substantially in excess of current disbursement needs was not invested by the Bureau, thereby resulting in significant losses of interest income to Indian peoples. In addition, funds were improperly withheld from certain depositors by an ISSDA to avoid recording overdrafts after erroneous payments had been made to other persons. The ISSDA mistakenly believed that he would incur personal liability for creating such overdrafts. We also found (1) that income from investments was inequitably distributed at two area offices, (2) that two ISSDAs were not properly recording interest income, and (3) that at one area office not all interest earned on investments was collected. Our review also indicated a need for more effective internal audits of ISSDA activities.

Loss of interest income on cash excess to current disbursement needs

The Bureau could have earned substantial additional interest income for Indian peoples by investing Indian money held in trust that was excess to current disbursement needs. Uninvested cash deposited with the Treasury ranged from $11.1 million to $22.6 million during fiscal year 1964, and a substantial portion of these funds appeared to be in excess of current requirements.

The act of June 24, 1938 (25 U.S.C. 162a), authorizes the Secretary of the Interior to invest trust funds in public-debt obligations of the United States or in bonds, notes, or other obligations, which are unconditionally guaranteed as to both interest and principal by the United States. Trust funds may also be deposited in commercial banks under certain conditions. Authority to invest trust funds in accordance with the provisions of this act has been delegated to area office directors. As a service to the Bureau, the Treasury Department purchases and sells Government securities upon request and is the custodian of the securities. The Treasury also holds in a single account all ISSDA trust funds not on deposit in commercial banks or invested in Government securities.

Prior to August 1961, trust funds in excess of current disbursement needs were invested in Government securities which had a fluctuating market value. By letter dated August 8, 1961, the Assistant Commissioner for Administration instructed area offices to place cash that was considered excess to current disbursement needs in commercial banks under appropriate time deposit restrictions for interest-earning purposes. The Assistant Commissioner pointed out that investments in time deposits would generally prove more advantageous than Government securities from both a liquidity standpoint and the guarantee of a reasonable return without the risk of loss. He suggested that each area director arrange a program of time deposits maturing every 30 to 60 days but did not provide guidelines to assist in the determination of the amount of cash that should be invested.

Our review at Billings showed that large amounts of uninvested trust funds were consistently on deposit with the Treasury. The Billings ISSDA informed us that the amounts of his investments were not based on detailed studies and that the agencies were not requested to forecast their cash requirements. He also stated that no consideration was given to the possibility of making investments for periods of less than 12 months.

In view of our findings at Billings, we reviewed all uninvested trust funds that the Bureau had on deposit with the Treasury. We found that the balance of the Bureau's account, which is determined only on a monthly basis, exceeded $11.1 million at the end of each month during fiscal year 1964 as shown in the following schedule.

Month	Month end balance (000 omitted)
July	$11,641
August	12,552
September	12,467
October	12,341
November	12,136
December	11,107
January	13,101
February	17,536
March	18,374
April	22,622
May	14,086
June	11,223

The amount in excess of current disbursement needs was not readily determinable, but we believe that a substantial portion of the above balance could have been invested. In February 1965, we discussed with Treasury Department officials the possibility of investing trust funds in excess of current disbursement needs on a centralized basis. The officials stated that they could see no objection to such a proposal and indicated that the liquidity of the funds could be maintained by investing in Government bonds that are payable on demand. These bonds earn at least 3.5-percent interest and are guaranteed as to principal.

In February 1965, we brought this matter to the attention of the Department and proposed that, because of the substantial amount of potential interest income involved, attention should be given to establishing a centralized investment program for trust funds in excess of current disbursement needs. By letter dated June 15, 1965, the Department advised us that such an investment program would be initiated within the next 2 years, when the Bureau's accounting system is centralized. The Department further advised that, as an interim measure, the Bureau agreed to initiate an intensive review program at the Central Office which would include examination and comparison of liquid month-end balances in the accounts of each ISSDA. Also, the Bureau instructed the area offices in June 1965 that:

> "*** immediate steps should be taken to review the present method of determining the disbursing needs. All excess cash should be placed at interest under the provisions of 25 USC 162a. In order to provide for increased liquidity, the ISSDA's should arrange a program of time deposit maturity every 30-60 days on amounts which cannot be safely maintained in a deposit status over an extended period, even if such short term deposits return less than the maximum rate of interest."

Funds withheld from depositors

The Billings ISSDA withheld funds from certain depositors to avoid recording overdrafts after erroneous payments had been made to other persons. He believed that he would incur personal liability by creating such overdrafts. At June 30, 1964, funds totaling $778 were being improperly withheld from nine depositors. A Bureau official at the Central Office advised us that ISSDAs at other area offices might also be withholding funds from rightful recipients.

Occasionally a wrong account is credited with income from trust property belonging to another person. When the error is noted, the accounts can usually corrected. In some cases, however, the funds that have been erroneously credited ave been withdrawn and collection cannot be promptly made from the incorrect payee. When this situation occurs, the account of the rightful recipient is not credited until (1) recovery is made from the incorrect payee, (2) collection is made from the Bureau employee, or his bonding company, responsible for the error, or (3) the ISSDA creates an overdraft by making payment from other trust funds.

The practice of withholding payments from rightful recipients was initiated by the Billings ISSDA in June 1963 with the purpose of avoiding overdrafts for which, he believed, he would be personally responsible. At June 30, 1964, the Billings ISSDA was improperly withholding $778 from nine depositors. We informed the Chief of the Bureau's Branch of Finance of our findings and he stated that it was possible that other ISSDAs were also withholding funds from rightful recipients.

We advised the Department that, in our opinion, the accounts of rightful recipients should be credited at the time erroneous payments are noted. In June 1965, the Department advised us that the Bureau had instituted a plan to establish an administrative reserve of funds in order that rightful recipients could be promptly paid. The funds for establishing the reserve were to be obtained from miscellaneous revenues derived by the Bureau from Indian tribes, agencies, and schools.

On November 23, 1965, we advised Department and Bureau officials that 25 U.S.C. 155 authorizes the expenditure of miscellaneous revenues only "for the benefit of the Indian tribes, agencies, and schools on whose behalf they are collected." Therefore, the Bureau may not legally expend miscellaneous revenues for the purpose of satisfying shortages in depositors' accounts, arising from erroneous payments made by ISSDAs. In our opinion, such expenditures would not be for the benefit of "Indian tribes, agencies, and schools," but rather would be for the benefit of Bureau employees who might be liable for the erroneous payments.

We were advised that the Bureau instituted the plan to establish the administrative reserve of funds in the belief that ISSDAs assumed additional personal liability by creating overdrafts to credit the accounts of rightful recipients. In this regard, by letter dated August 4, 1964, the Assistant Commissioner for Administration advised area offices that, if an ISSDA authorized a disbursement or adjustment to correct the accounts after an erroneous payment was made, the ISSDA would assume personal liability for any overdraft created by such action. In our opinion, however, the ISSDA does not assume additional personal liability for adjusting the accounts and making the proper payments since, in so doing, he is discharging a legal debt of the Government. We believe that any personal liability on the part of ISSDAs is incurred at the time the erroneous disbursement is made and not at the time the proper account is subsequently credited.

Recommendation to the Commissioner of Indian Affairs

Accordingly, we recommend that the Commissioner of Indian Affairs (1) advise the ISSDAs that no additional personal liability is incurred as a result of making payments to rightful recipients and (2) require the ISSDAs to promptly credit the proper accounts after it has been learned that erroneous payments have been made.

Inequitable distribution of
interest income on deposits

We estimate that, during fiscal years 1963 and 1964, $38,700 of interest income was inequitably distributed to depositors because Aberdeen and Billings misclassified the beneficial ownership of Government securities after ISSDA activities were reorganized in 1950.

In 1950 the Bureau established area office ISSDAs by consolidating the functions of agency office ISSDAs. At the time of the consolidation, Government securities which had been purchased by agency office ISSDAs as investments of excess cash on deposit were transferred to the area office ISSDAs. The identification of the securities with the agency offices at which they were originally purchased should have been discontinued at the time of the consolidation since cash on deposit and securities purchased with the excess cash were then merged by the area office ISSDAs into consolidated accounts. Thus, the beneficial ownership of the securities was now vested with all of the depositors' accounts held by the area office ISSDAs. However, we found that Aberdeen and Billings were distributing the interest income from the securities to the depositors from the agencies at which the securities had originally been purchased, disregarding balances in other depositors' accounts during current interest periods.

The inequity of this practice is illustrated by the following examples. During fiscal years 1963 and 1964, $7,500 in interest income was distributed to depositors from an agency office that had an average of $1,661,000 on deposit. During the same period, $20,000 in interest income was distributed to depositors from another agency office that had an average of $448,000 on deposit.

The interest distributed was income from securities with maturity values of $150,000 purchased by the ISSDA at the first agency office prior to 1950 and $400,000 purchased by the ISSDA at the second agency office prior to 1950. Average deposits from members of a third agency during the same 2-year period were over $400,000; however, the depositors from this agency did not receive any interest income because no securities were on hand, which had been purchased by their agency office ISSDA prior to 1950.

We computed a distribution of interest earned by Aberdeen and Billings from investments of excess cash on the basis of average funds on deposit during the period the interest was earned. We estimate that, during fiscal years 1963 and 1964, depositors from 7 agency offices were credited with $38,700 of interest income which should have been credited to depositors from 11 other agencies and two miscellaneous accounts.

Aberdeen and Billings officials agreed with our findings and advised us that steps would be taken to equitably distribute interest income. The Bureau's Central Office brought the deficiency at Aberdeen and Billings to the attention of all area offices by letter dated August 10, 1964.

Trust assets not recorded

The Aberdeen and Billings ISSDAs did not record all trust funds for which they were accountable. At June 30, 1964, these two ISSDAs were accountable for over $50,000 of unrecorded interest income which had accrued on trust funds on deposit with commercial banks in time and savings accounts. Failure to properly record all trust assets results in an understatement of the amounts for which the ISSDAs are accountable.

ISSDAs are required to submit to the Treasury monthly reports of funds for which they are accountable. These are funds that are not on deposit in Treasury checking accounts or invested in Government securities held by the Treasury as custodian. The monthly reports are also used by the General Accounting Office in settling the accounts of the ISSDAs.

At June 30, 1964, the Aberdeen ISSDA reported his accountability as $2,077,218.15 on deposit in four commercial banks, and the Billings ISSDA reported $934,020.62 on deposit in three commercial banks. However, these reported amounts did not include over $42,000 accrued interest income on the Aberdeen deposits and $8,000 on the Billings deposits. In some instances, the unrecorded interest income had been credited to the ISSDA accounts by the banks several months previously.

Bureau regulations provide for the recording of undistributed interest on deposits in commercial banks but do not specify when interest is to be recorded. Area officials advised us that they did not believe they were responsible for recording and reporting interest income until it had been either received or acknowledged by the Bureau as credited to the ISSDA account.

We brought this matter to the attention of Department and Bureau officials at the Central Office who advised us that, in the future, interest income would be properly recorded by the ISSDAs.

Interest on bank deposits not paid at the prescribed rate

Our review disclosed that commercial banks were paying simple interest on trust funds invested by Billings in time deposits, rather than compound interest as provided for in the deposit agreements. The Billings ISSDA was not aware that compound interest should have been paid, therefore $1,200 in additional interest income was not collected.

Standard agreements with commercial banks provide for payment of interest on time deposits made by ISSDAs at the maximum rate permitted by the Federal Reserve Board. However, interest on $800,000 of time deposits made by the Billings ISSDA was being computed on the basis of 4-percent simple interest even though the maximum interest rate permitted by the Federal Reserve Board was 4 percent compounded quarterly.

The Billings ISSDA advised us that he had relied on the banks to pay interest in accordance with the agreements and that he was not aware of the rate at which interest should be received. The difference between compound interest and simple interest on these time deposits amounted to over $1,200 for the period March 28, 1962, to June 30, 1964.

After we brought this matter to the attention of area officials, the $1,200 was collected.

Need to broaden scope of internal audits of ISSDA activities

We discussed the findings in this report with the Chief of the Bureau's Office of Audit. The Chief advised us that on occasions the internal auditors had discussed with area office officials the possibility of investing a greater portion of trust funds. He stated, however, that the matter had not been included in formal internal audit reports because he did not believe that the Office of Audit was in a position to advise as to the minimum cash balances that should be maintained. In our opinion, the lack of a specific recommendation as to the amount of minimum cash balances required should not have precluded the Office of Audit from formally reporting the deficiency to the proper Bureau officials in order that the matter could be considered and corrective action initiated. The Chief advised that his staff had not reviewed the investment of trust funds held by ISSDAs from a Bureau-wide basis but had considered each ISSDA account separately since the management of the funds was delegated to area offices.

In regard to the withholding of funds from depositors by ISSDAs, the Chief stated that his office had reported instances when it found that accounts of rightful recipients had not been corrected after erroneous payments had been made. He advised that for some time the Bureau had been attempting to establish procedures to correct the situation. The Chief stated also that the internal auditors noted that interest income from securities had been inequitably distributed by Billings and included this finding in an audit report to the Deputy Commissioner of Indian Affairs in January 1964. Shortly thereafter, we noted the deficiency at Aberdeen as well as Billings and corrective action was taken.

In view of our findings, the Chief stated that he had instructed his staff to review the agreements between ISSDAs and banks during future audits and verify that interest income was being properly computed and recorded. In addition, he informed us that in the near future he hopes to be able to conduct more detailed audits of ISSDA activities.

In view of the number and nature of the deficiencies noted during our selected examinations at two area offices, we believe that the Office of Audit should direct special attention to its audits of ISSDA activities in order to more effectively assist responsible Bureau officials in (1) recognizing those areas that need their attention and (2) implementing improvements in the management of ISSDA activities.

Recommendation to the Commissioner of Indian Affairs

Accordingly, we recommend that the Commissioner of Indian Affairs direct that internal audits of ISSDA activities be broader in scope.

APPENDIXES

ISSDA ACCOUNT BALANCES OF THE BUREAU OF INDIAN AFFAIRS

JUNE 30, 1964

	Total	Aberdeen, South Dakota	Anadarko, Oklahoma	Billings, Montana	Gallup, New Mexico
		Location of ISSDAs			
	(000 omitted)				
ASSETS:					
Cash on deposit with Treasury	$11,223	$1,434	$ 791	$2,383	$ 3,298
Government securities held by Treasury:					
In the names of individuals and groups	13,436	219	516	964	5,715
Purchased with excess cash	21,379	520	895	1,625	2,486
Cash on deposit with commercial banks in time and savings accounts	14,627	2,077	600	934	900
Total assets	$60,665	$4,250	$2,802	$5,906	$12,399
LIABILITIES:					
Deposits	$60,240	$4,227	$2,792	$5,799	$12,385
Undistributed income from investment of excess cash	347	11	10	96	14
Advances on contracts	78	12	-	11	-
Total liabilities	$60,665	$4,250	$2,802	$5,906	$12,399

Location of ISSDAs					
Juneau, Alaska	Muskogee, Oklahoma	Pawhuska, Oklahoma	Phoenix, Arizona	Portland, Oregon	Ft. Duchesne, Utah
(000 omitted)					
$512	$ 280	$1,412	$ 587	$ 532	$ -5
-	3,301	2,635	57	29	-
125	7,739	4,424	-	3,565	-
-	1,300	-	2,750	2,790	3,276
$637	$12,620	$8,471	$3,394	$6,916	$3,271
$636	$12,531	$8,413	$3,393	$6,793	$3,271
1	89	58	1	68	-
-	-	-	-	55	-
$637	$12,620	$8,471	$3,394	$6,916	$3,271

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF THE INTERIOR AND THE BUREAU OF INDIAN AFFAIRS RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
DEPARTMENT OF THE INTERIOR		
SECRETARY OF THE INTERIOR:		
Fred A. Seaton	June 1956	Jan. 1961
Stewart L. Udall	Jan. 1961	Present
UNDER SECRETARY OF THE INTERIOR:		
Elmer F. Bennett	Sept. 1958	Jan. 1961
James K. Carr	Jan. 1961	July 1964
John A. Carver, Jr.	Jan. 1965	Present
ASSISTANT SECRETARY OF THE INTERIOR (PUBLIC LAND MANAGEMENT):		
Roger C. Ernst	June 1957	Sept. 1960
George W. Abbott	Sept. 1960	Jan. 1961
John A. Carver, Jr.	Jan. 1961	Dec. 1964
Harry R. Anderson	July 1965	Present
ASSISTANT SECRETARY OF THE INTERIOR (ADMINISTRATION):		
D. Otis Beasley	Sept. 1952	Dec. 1965
BUREAU OF INDIAN AFFAIRS		
COMMISSIONER OF INDIAN AFFAIRS:		
Glenn L. Emmons	Aug. 1953	Jan. 1961
John O. Crow (acting)	Feb. 1961	Sept. 1961
Philleo Nash	Sept. 1961	Present

PRINCIPAL OFFICIALS OF THE

DEPARTMENT OF THE INTERIOR

AND THE BUREAU OF INDIAN AFFAIRS

RESPONSIBLE FOR THE ADMINISTRATION OF

ACTIVITIES DISCUSSED IN THIS REPORT (continued)

	Tenure of office	
	From	To
BUREAU OF INDIAN AFFAIRS (continued)		
DEPUTY COMMISSIONER OF INDIAN AFFAIRS:		
H. Rex Lee	Nov. 1959	Sept. 1961
John O. Crow	Sept. 1961	Nov. 1965
Robert L. Bennett	Jan. 1966	Present
ASSISTANT COMMISSIONER OF INDIAN AFFAIRS (ADMINISTRATION):		
Fred H. Massey	July 1956	Present
DIRECTOR, ABERDEEN AREA OFFICE:		
Benjamin Reifel	Aug. 1955	Mar. 1960
Robert L. Bennett (acting)	Mar. 1960	May 1960
Martin N. B. Holm	May 1960	Present
DIRECTOR, BILLINGS AREA OFFICE:		
Percy E. Melis	June 1956	Mar. 1962
Milton A. Johnson (acting)	Mar. 1962	June 1962
James F. Canan	June 1962	Present

UNITED STATES
DEPARTMENT OF THE INTERIOR
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

JUNE 15 1965

Mr. James T. Hall, Jr.
Assistant Director
Civil Accounting and
Auditing Division
General Accounting Office
Washington, D. C.

Dear Mr. Hall:

We have reviewed the proposed draft report to the Congress titled "Deficiencies in the Management of Moneys Held in Trust for Indians," and we offer the following comments on each finding as follows:

Loss of Interest Income on Cash Excess to Current Disbursement Needs.

The Department and the Bureau of Indian Affairs are well aware of their trustee obligations with respect to the management of Indian moneys. The proposed report gives recognition to Central Office memorandum of August 8, 1961, which gave instructions for the Indian Service Special Disbursing Agents (ISSDA) to determine the amounts that were excess to disbursing requirements and invest such amounts at interest in commercial banks for individual Indians and Indian groups. The GAO auditors involved in the audit were informed that such was the goal of the proposed central accounting station, but at present each of the several ISSDA maintain respective funded checking accounts with the Treasurer of the United States. As the accounting work of each Area is absorbed into the proposed Bureau ADP and Finance Center, the Area's ISSDA account will also be merged. In this manner, centralized control of investment activities can be effected and the liquidity margin of the fund minimized. This merger will be accomplished over the next two years.

As an interim measure, the Bureau has agreed to initiate an intensive review program in the Central Office which will involve, among other things, thorough analytical examinations of monthly reports submitted by ISSDA. In these reviews, attention will be given to examination and comparison of liquid month-end balances in the accounts of each agent. Central Office personnel will question balances above a reasonable level while giving recognition to possible unforeseen situations that might arise requiring a need for additional demands for cash on a short term basis. A letter to Field personnel advising them of the new procedures was issued June 3, 1965, (copy attached).

Funds Withheld From the Rightful Indian Recipients.

With respect to this item, we agree that the rightful owners should receive their funds, but this is the Bureau's responsibility, not that of the bonded ISSDA who maintains a funded checking balance together with his investments which must equal his liabilities in full to identified individuals. Based on recommendations of a Management Improvement Committee, a plan for an administrative reserve of funds has been instituted to remove overdrafts in Individual Indian Money accounts (see attached memorandum dated May 11, 1965, to all Area Directors and ISSDA).

Inequitable Distribution of Income

This resulted from a holdover practice when each agency had an ISSDA and certain long-term investments were made. The inscriptions on securities were changed coincident with interest periods and the GAO representatives were so advised, orally, when they brought the matter to the Bureau's attention.

Trust Assets not Recorded.

As noted in the last sentence in the report, the Bureau agreed that interest income earned and credited to the ISDDA's accounts by banks will be recorded at the time the interest is earned.

Interest on Bank Deposits not Paid at the Prescribed Rate.

The Billings, Montana, Area Office has advised that the $1,200 interest due from banks was collected and adjustments made in October and November of 1964.

If you should desire additional information, please let us know.

Sincerely yours,

Director of Survey and Review

Enclosure